

**REPORT OF THE AUDIT OF THE
FORMER MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 28, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MCCrackEN COUNTY SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes as of April 28, 2006 for the former McCracken County Sheriff. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected \$23,296,131 for the districts for 2005 taxes, retaining commissions of \$777,035 to operate the Sheriff's office. The former Sheriff distributed \$22,443,557 to the districts for 2005 Taxes. Taxes of \$37,756 are due the districts from the former Sheriff and refunds of \$6,547 are due the former Sheriff from the taxing districts.

Report Comment:

- Internal Controls Over Computer System Should Be Strengthened

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Van Newberry, McCracken County Judge/Executive

Honorable Frank Augustus, Former McCracken County Sheriff

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the former McCracken County Sheriff's Settlement - 2005 Taxes as of April 28, 2006. This tax settlement is the responsibility of the former McCracken County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former McCracken County Sheriff's taxes charged, credited, and paid as of April 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Van Newberry, McCracken County Judge/Executive

Honorable Frank Augustus, Former McCracken County Sheriff

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Internal Controls Over Computer System Should Be Strengthened

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

March 2, 2007

MCCRACKEN COUNTY
FRANK AUGUSTUS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 28, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,719,343	\$ 3,436,923	\$ 8,401,678	\$ 3,298,641
Tangible Personal Property	262,744	956,480	1,494,980	1,591,060
Intangible Personal Property				554,801
Increases Through Exonerations	1,473	2,430	5,153	4,042
Franchise Taxes	273,021	382,266	629,767	
Additional Billings	813	954	2,417	1,773
Limestone, Sand and Mineral Reserves	94	154	376	114
Penalties	14,558	19,351	41,657	19,377
Adjusted to Sheriff's Receipt	(1)	29	18	26
Gross Chargeable to Sheriff	<u>3,272,045</u>	<u>4,798,587</u>	<u>10,576,046</u>	<u>5,469,834</u>
<u>Credits</u>				
Exonerations	16,138	21,554	42,630	29,164
Discounts	47,028	70,780	158,930	88,601
Delinquents:				
Real Estate	45,428	56,952	101,212	55,103
Tangible Personal Property	2,608	5,174	7,530	10,258
Intangible Personal Property				2,975
Franchise Taxes:				
Delinquent	2,316	3,586	8,096	
Uncollected	10,108	13,443	20,767	
Total Credits	<u>123,626</u>	<u>171,489</u>	<u>339,165</u>	<u>186,101</u>
Taxes Collected	3,148,419	4,627,098	10,236,881	5,283,733
Less: Commissions *	<u>134,095</u>	<u>162,172</u>	<u>255,922</u>	<u>224,846</u>
Taxes Due	3,014,324	4,464,926	9,980,959	5,058,887
Taxes Paid	3,009,652	4,421,738	9,966,833	5,045,334
Refunds (Current and Prior Year)	<u>5,846</u>	<u>6,726</u>	<u>18,633</u>	<u>13,125</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (1,174)</u>	<u>\$ 36,462</u>	<u>\$ (4,507)</u>	<u>\$ 428</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY
 FRANK AUGUSTUS, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 April 28, 2006
 (Continued)

* Commissions:

10% on \$	10,000
4.25% on \$	11,678,395
4% on \$	335,786
2.5% on \$	10,236,881
1% on \$	1,035,069

** Special Taxing Districts:

Library District	\$ 37,070
Health District	(194)
Extension District	(198)
Mental Health District	(70)
Paducah Junior College	(16)
Reidland Fire District	(25)
Hendron Fire District	(52)
West McCracken Fire District	155
Concord Fire District	(9)
Lone Oak Fire District	103
City of Lone Oak	(296)
Melber Fire District	<u>(6)</u>

Due Districts or (Refunds Due Sheriff)	<u>\$ 36,462</u>
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MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 28, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 28, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 22, 2005, through April 28, 2006.

Note 4. Interest Income

The former McCracken County Sheriff earned \$51,289 as interest income on 2005 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former McCracken County Sheriff collected \$73,296 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former McCracken County Sheriff collected \$4,995 in advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs and advertising fees to the county.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the former Sheriff had \$7,866 in unrefundable duplicate payments and unexplained receipts. Therefore, the former Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

MCCRACKEN COUNTY
FRANK AUGUSTUS, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of April 28, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Internal Controls Over Computer System Should Be Strengthened

While performing audit procedures pertaining to the former Sheriff's Tax Settlement, auditors noted matters involving the internal controls over the computer system that we consider a material weakness. The former Sheriff was responsible for the design and implementation of programs and controls to prevent and detect fraud as it related to his duties as an elected official. In order to strengthen internal controls over the computer system, we recommend the following controls be implemented:

- Partial payments should not be considered paid in full by the computer system. The remaining portion of the tax bill should be disclosed on the delinquent tax list. Under the current system, the unpaid portion of a partially paid tax bill is not included on the delinquent tax list. Such a condition could result in an incomplete delinquent tax list.
- A manual log should be maintained for any changes made to the tax system or tax data. This log should include changes made to the system and/or data and the person making such changes.
- Daily backups should be made in order to prevent lost data. Such backups should be stored in a secured, off-site location that is safe in the event of a disaster.

Former Sheriff's Response: None

PRIOR YEAR:

The following comment was reported in the prior year and is discussed above.

- Internal Controls Over Computer System Should Be Strengthened

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Van Newberry, McCracken County Judge/Executive
Honorable Frank Augustus, Former McCracken County Sheriff
Honorable Joh Hayden, McCracken County Sheriff
Members of the McCracken County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former McCracken County Sheriff's Settlement - 2005 Taxes as of April 28, 2006, and have issued our report thereon dated March 2, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former McCracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Internal Controls Over Computer System Should Be Strengthened

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former McCracken County Sheriff's Settlement -2005 Taxes as of April 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 2, 2007

